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Mr. Chairman and members of the Committee, I appreciate the opportunity to appear at this hearing to discuss how weather has affected U.S. agriculture during 2001 and, thus far, during 2002. The major event over this period has been drought, which has affected the Western Plains and Mountain States, the Pacific Northwest, southern Texas and the eastern seaboard. The drought has adversely affected livestock pastures and a range of crops. I will also address other weather events, such as the heavy rainfall in the corn belt this spring that is affecting planted acreage. I will conclude with a brief description of the programs the Department has available to assist producers affected by natural disasters. Substantial assistance has been provided to producers through these programs, including $9.6 billion provided to producers over 1998-2001 through the Federal crop insurance program. An additional $5 billion in crop loss assistance was provided through supplemental appropriations for 1998-2000 crops. The passage of the Agricultural Risk Protection Act of 2000 eliminated the need for disaster supplementals for most producers because the increased federal subsidies made crop insurance more affordable for farmers.

Summary of Weather Events

During 2001, most of the nation was unusually warm, with the contiguous U.S. states having the sixth warmest year since records began in 1895. The Drought Monitor, a product of several Federal agencies, including the Department of Agriculture (USDA), is a weekly assessment of the severity of drought across the United States. The Drought Monitor charts in the appendix to this statement show intensification of drought during the 2000-2001 winter over the Northwest region. November through April precipitation there was the second lowest since 1895. Reservoir levels fell to well below normal in Montana, Nevada, Oregon, and Washington. Drought also affected Florida and Georgia, while much of the rest of the nation had a cold, wet winter. Spring participation was near to above normal in many parts of the nation east of the Rocky Mountains helping to ease drought conditions in the Southeast. However, Montana, in particular, remained dry.

The summer was very warm and wet over most of the country; however, the Southern Plains states down through central and west Texas were very dry. The Northwest continued hot and dry, with many wildfires. Idaho and Nevada had the hottest August ever. During the fall, many areas were dry and warm, especially the Eastern Seaboard and Northwest. As the year closed out, heavy rain and snow helped the drought situation in the Pacific Northwest.

The current situation faced by producers reflects the existing conditions last fall exacerbated by precipitation between October 1, 2001 and May 19, 2002 that totaled less than 40 percent of normal in many locations from southern California to the central High Plains. This shortage of precipitation is adversely affecting pastures, winter wheat, and recently planted summer crops. Long-term precipitation deficits also exist on the Northern Plains, along the east coast, in deep south Texas, and at some locations in the interior Northwest.

The Drought Monitor for May 14, 2002 and recent weeks shows the drought diminishing across the Northeast, but persisting in portions of the Southern Atlantic region. During the last 5 weeks, hot, dry conditions across the Deep South have increased irrigation demands and stressed dryland crops. Drought remains most serious on the High Plains and across the Southwest. Meager cold-season snow packs have resulted in low runoff forecasts across the central and southern Rockies and the Southwest, although portions of the Northwest continue to recover from the drought, as previously parched soils soak up potential runoff. But as this occurred, drought developed across much of the remainder of the West, reducing reservoirs to below-normal levels. Water reserves remain just slightly below normal in California, the western State with the largest water reserves.

The Climate Prediction Center of the National Weather Service issued its most recent seasonal outlook for June through August on May 16, 2002. The forecast is for hotter-than-normal weather across the drought-stricken Southwest during the summer months, with the drought expected to intensify. Above-normal temperatures are also expected across the northern High Plains, Inter-mountain West, and in the southern Atlantic and Gulf Coast States. Drier-than-normal summer weather is forecast across the Northwest and in southern Texas, with drought expected to continue or intensify in Montana, Idaho, South Texas and the lower mid-South, while wet conditions are expected to persist from the east-central Plains to the lower Ohio Valley.

Longer term temperature and precipitation outlooks for July through September 2002 to June through August 2003 feature an expected evolution of a weak El Niño, with the cold-season months expected to feature mild weather across the Northern U.S. and slightly cool conditions along the Gulf Coast. Wet weather is expected across much of the Southern U.S. and drier-than-normal conditions on the northern High Plains and from the Ohio Valley.

Summary of Key Livestock Effects

The livestock sector, mainly cattle, has been greatly affected by the continued drought in many areas and the sharp changes in winter weather conditions in 2001 and 2002. Pasture conditions have been poor into 2002, forcing a larger than normal number of cattle into feedlots, expanding the beef supply, and reducing cattle prices. Weather has had much less of an impact on pork or poultry as production has been increasing in response to low grain and protein meal prices. However, overall large supplies of meat and weakened domestic and foreign demand have resulted in price pressure on all meats.

The nation's cattle inventory has been steadily declining since late 1995 and the annual calf crop has been shrinking. Cattle prices have also trended up. These developments generally led most analysts, including USDA, to predict declining placements of cattle into feedlots and sharply lower beef production over the past few of years. However, despite generally favorable returns for cow-calf operators over the past 3 years, a lack of forage and the added cost of supplemental feeding has forced producers to sell cattle to feedlots rather than retain heifers to add to the breeding herd. Coupled with heavier weights as feedlots have attempted to capture price premiums from Choice grade beef production, beef production rose 2 percent between 1998 and 2001, and production is projected to increase an additional 1 percent in 2002.

Much of the increase in placements into feedlots has been heifers. Commercial heifer slaughter reached a record 12 million head in 2000 and remains 8 percent above the average slaughter level for the 5 years preceding 1998. As heifers are placed on feed, the turning point of the cattle cycle is pushed further into the future. It is now unlikely that the U.S. cattle inventory will increase before 2004.

Drought was compounded by extremely cold, wet weather in the High Plains cattle feeding region during the winter of 2000-2001. Cattle weights dropped during the first half of 2001 as cattle consumed feed for maintenance rather than weight gain. As a result, supplies of Choice grade beef declined and cattle and retail beef prices spiked. Cattle prices averaged $79.11 per cwt in January-March 2001 and $76.41 per cwt in April-June 2001, the highest level since 1993. The higher cattle prices were passed along to consumers; average Choice beef prices reached a record $3.48 per pound in June.

Cattle prices began declining sharply later in 2001 with large placements spurred by the drought, a return to heavier slaughter weights, more Choice beef available and a slowdown in foreign and domestic demand. Cattle prices in the first quarter of 2002 averaged $70.19 per cwt, almost $9 per cwt below 2001, but above prices in 1999 and 2000. Retail prices tend to lag declines in cattle prices but second and third quarter consumer prices are expected to average 4-5 percent below 2001.

Large drought-induced placements this past quarter are expected to keep slaughter above year-ago levels until the fourth quarter of 2002. Placements in the first quarter were almost 7 percent above 2001. Should drought continue, cow/calf operators would continue marketing large numbers of cattle through feedlots, beef supplies remain large and, coupled with increasing supplies of pork and poultry, cattle prices would remain under pressure. However, a return to more normal weather would benefit pastures, encourage cow/calf operators to hold back heifers, reduce feedlot placements and slaughter levels and strengthen cattle prices.

Summary of Key Crop Effects

The weather events described earlier have given rise to a variety of production effects across the nation. Without being exhaustive, this section illustrates the adverse effects on several key crops for 2001 and 2002.

Winter wheat. Prolonged drought from Texas to the Canadian border has reduced this year's winter wheat production prospects by an estimated 150 to 200 million bushels from normal. Most of the drop in production is in Texas, Oklahoma, Kansas, Colorado, Nebraska, Wyoming, Montana, and South Dakota due to a 3.3-million-acre reduction in the area expected to be harvested for grain and below-average yields in Montana, Colorado, and Wyoming.

In remaining winter wheat producing states, dry conditions in some areas and excessively wet conditions in others may reduce harvested acres another 0.6 million from normal. USDA's winter wheat planted area last fall was also below expectations, due to dry conditions in parts of the Great Plains and prolonged wet weather in the Midwest. It is likely that 1 to 2 million acres of winter wheat were not planted due to adverse weather conditions.

Drought also reduced winter wheat production in 2001 as early drought, followed by prolonged rain in some areas and extended dry weather in others, reduced planted area. The losses were not as large as expected earlier in the season as production in Texas, Oklahoma, and Kansas turned out to be well above the initial survey estimates in May 2001.

Spring wheat. For durum wheat, production in 2001 was about 7 percent below normal due to below-normal yields in Montana and North Dakota. Lower production in North Dakota was largely due to prolonged wet weather at harvest. For 2002, USDA's planting intentions survey released in March estimated Durum plantings to be down around 2 percent from last year.

Production of other spring wheat in 2001 was about 2 percent below normal, largely because the prolonged drought resulted in increased abandonment and lower-than-normal yields in Montana. Montana production of 65.6 million bushels was more than 33 million below normal with only 80 percent of the planted area harvested for grain versus the normal 95 percent. Yields were 6 bushels per acre below the 29 bushel average. Yields were also below normal for the Pacific Northwest because of unusually hot, dry weather.

For 2002, the planting intentions survey estimated 2002 acreage for other spring wheat down 3 percent from last year, largely due to a 700,000-acre drop in North Dakota. For the nation, production may be 2 percent below last year. Planting progress as of May 19 showed 71 percent of intended 2002 spring wheat area was seeded, versus 75 percent last year and a 5-year average of 78 percent.

Cotton. Much of the cotton belt experienced favorable weather in 2001 and cotton production was a record high. However, weather problems, especially drought and excessive heat, resulted in abandonment of nearly 30 percent of the Texas crop, about 10 percentage points above the previous 10-year average abandonment rate of 20 percent. Relative to the 10-year average abandonment rate and yields, about 350,000 bales of cotton production were lost.

Excessive rain and moisture at harvest time damaged mature bolls in the lower Mississippi Delta. About 270,000 bales were lost in Louisiana and 150,000 bales in southern Mississippi.

For 2002, about 150,000 acres of dryland cotton in the Lower Rio Grande Valley of Texas are likely to be abandoned due to drought. In all other areas, cotton crop progress is within normal limits.

Southern citrus and sugar cane. In Florida, weather reduced 2001 cane sugar production an estimated 35,000 short tons, raw value or 1.7 percent. Florida sugarcane is grown on 465,000 acres and the reduction was widespread and based on lower sugarcane per-acre yields.

Florida orange production was reduced 5 million boxes, or about 2 percent, due to lower fruit retention and below-average size development as a consequence of warm weather and lack of moisture. Consumer price impacts are estimated to be negligible.

In Louisiana, 2001 cane sugar production was reduced 185,000 tons, raw value, or 10 percent, due to excessive dryness during the growing season. Louisiana sugarcane is grown on 495,000 acres and reduction in production was widespread and based on lower sugarcane per-acre yields.

Other horticultural crops. California-Arizona iceberg lettuce shipments were reduced 22 percent during February to March 2002, compared with a year earlier, due to cold weather which reduced yields. Consumer prices for lettuce increased about 40 percent during February to April 2002, following the 150 percent increase in farm-level prices.

In Colorado, onion producers are highly concerned about dryness reducing 2002 storage onion production. Colorado's onion harvest area is forecast at 12,500 acres, all of which is irrigated. Colorado onion production ($45 million) accounts for about 12 percent of the summer storage crop, and reduced supplies could cause consumer prices for fresh onions to rise. However, the impact on the food at home index would be minimal.

Corn and Oilseeds. The 2001 corn and soybean crops were generally excellent. Although a few states had problems, each crop had the second highest U.S. yield per acre ever. However, this spring's weather could have a much more damaging outcome. Corn and soybean plantings are 17 and 20 percentage points, respectively, behind their 5-year average through May 19, primarily due to delayed planting in the eastern corn belt. Progress is lagging sharply in Missouri, Kentucky, Ohio, Indiana, and Illinois. As of May 19, producers in these states had planted only 25 percent of the corn and soybean acreage they intend to plant, compared with 70 percent planted on average over the past 5 years by that date. Because the next two weeks will be critical for corn planting in the wettest areas, it is too early to speculate about how much acreage of these crops will be planted this year and whether corn and soybean yields will be reduced due to late planting. Good yields can be achieved even if planting is delayed for eastern cornbelt States. Progress in the western cornbelt currently is near the 5-year average pace, although cold weather has slowed emergence.

The dry conditions in the westernmost part of the soybean growing area currently are expected to have little impact on soybean production. However, a small percentage of the flax and safflowerseed crops are grown in Montana and may suffer yield reductions due to dry conditions this year. Sunflowerseed production in the drought-affected states of the Great Plains usually accounts for 20-25 percent of the U.S. production. The primary sunflowerseed-producing area in North and South Dakota currently appear to be east of the driest areas.

USDA Programs of Assistance

Every year in production agriculture some farmers face losses due to weather. Consequently, a wide range of USDA programs has evolved to assist producers in managing risk and offsetting production losses.

Crop Insurance. Participation in the Federal crop insurance program has increased substantially since 1998, particularly at coverage levels greater than 50 percent. Supplemental payments provided under the supplemental disaster bills passed in late 1998 and 1999 provided additional premium subsidies for producers who purchased higher levels of crop and revenue insurance. The Agricultural Risk Protection Act of 2000 increased subsidy levels for all levels of coverage and for all insurance products.

As a result of increased subsidies, enrollment in the crop insurance program rose from 182 million acres insured in 1998 to almost 212 million in 2001, a 17 percent increase. Over 80 percent of eligible acreage was estimated to be enrolled in the program in 2001. Along with an increase in participation, producers also purchased insurance at higher coverage levels. Liability increased by 32 percent over the same period to $36.7 billion. Premiums increased from $1.9 billion in 1998 to almost $3 billion in 2001, an increase of almost 58 percent.

The appendix table shows participation in the Federal crop insurance program for wheat and barley producers in the top ten wheat and barley producing states in 2001. Participation is above 90 percent of eligible acreage in Montana, North Dakota and Minnesota, and above 80 percent of eligible acreage in South Dakota, Nebraska, Colorado and Kansas. Participation rates appear somewhat lower in Oklahoma and Texas, but this likely reflects the fact that some of the planted wheat reported by USDA is used for haying and grazing and not intended for grain harvest. Participation among the top ten wheat states is lowest in Washington, reflecting the relatively low participation rate among white wheat and other specialty wheat producers.

Participation among barley producers in 2001 reflects a similar geographic pattern, with participation rates highest in Montana, North Dakota, Minnesota and Colorado. Participation is less than 60 percent of insured acreage in Idaho, Washington, California, Oregon, Wyoming and South Dakota.

Over the 1998-2001 crop years, crop insurance paid out almost $9.6 billion in indemnity payments. Texas producers were the largest recipients, receiving almost $2 billion in indemnity payments over the period. North Dakota was second at $1.1 billion, followed by California with $461 million, Minnesota with $449 million and Georgia with $423 million. Not surprising, payments generally tended to be highest in those states with the highest participation rates. As participation has increased and producers have increased coverage levels, indemnities have increased as well. In 2001, crop insurance indemnities were a record $3 billion with almost $500 million paid to Texas producers.

Noninsured Crop Disaster Assistance Program (NAP). NAP provides crop loss protection for growers of many crops when crop insurance is not available. This program covers noninsurable crops and planting prevented by natural disasters. Eligible crops include commercial crops and other agricultural commodities. Also eligible for NAP coverage are controlled-environment crops (mushrooms and floriculture), specialty crops (honey and maple sap), and value loss crops (aquaculture, Christmas trees, ginseng, ornamental nursery and turfgrass sod).

Prior to 2001, producers qualified for payments under NAP if there was at least a 35-percent crop loss in the disaster area and an individual producer's loss exceeded 50 percent of the expected yield. The area trigger was eliminated under the Agricultural Risk Protection Act of 2000 beginning with the 2001 crop and commodity coverage was expanded under NAP. To be eligible for payments under NAP for the 2001 and subsequent crops, the natural disaster must have either reduced a producer's expected production by more than 50 percent or prevented the producer from planting more than 35 percent of the intended crop acreage. The NAP payment is determined by multiplying the production loss in excess of 50 percent by 55 percent of the average market price for the commodity. Payments are factored down if the producer was prevented from planting the crop or the crop was not harvested.

In FY 2000, $34 million were paid to producers under NAP. Reimbursement for crop losses increased to $63 million under NAP in FY 2001. The President's Budget for FY 2003 projects payments under the NAP, as modified by the Agricultural Risk Protection Act of 2000, will increase to $149 million in FY 2002, to $190 million in FY 2003, and stabilize at about $200 million annually thereafter. The increase in projected outlays under NAP reflects the elimination of the area loss trigger and the expansion of NAP coverage to more crops.

Emergency Conservation Program (ECP). ECP provides cost-share assistance to farmers and ranchers to rehabilitate farmland damaged by wind erosion, floods, hurricanes, or other natural disasters. ECP also provides funds to assist producers in carrying out emergency water conservation and assistance measures, both for livestock and for existing irrigation systems for orchards and vineyards, during periods of severe drought.

To be eligible for ECP assistance, the producer must have suffered a natural disaster that created new conservation problems which, if not treated, would impair or endanger the land; materially affect the productive capacity of the land; represent unusual damage which, except for wind erosion, is not the type likely to recur frequently in the same area; and be so costly to repair that Federal assistance is or will be required to return the land to productive agricultural use. Emergency practices to rehabilitate farmland damaged by wind erosion and other natural disasters, including drought, may include debris removal, providing water for livestock, fence restoration, grading and shaping of farmland, restoring conservation structures, and water conservation measures. Under the program, farmers and ranchers may enter into agreements to jointly solve mutual conservation problems.

In FY 2000, ECP provided $60 million in cost-share assistance to producers affected by natural disasters. ECP cost-share assistance fell to $35 million during FY 2001.

Haying and Grazing of Acreage Enrolled in the Conservation Reserve Program (CRP). Prior to enactment of the Farm Security and Rural Improvement Act of 2002 (Act), the Secretary could allow harvesting or grazing or other commercial use of the forage on cropland enrolled in the CRP in response to a drought or other similar emergency. The 2002 Act amended the CRP to require the Secretary to reduce the CRP rental payments by an amount commensurate with the economic value of forage harvested or grazed if harvesting or grazing is permitted.

In 2000 across 20 states, producers in 369 counties were permitted to graze forage, and in 249 counties, to hay on cropland enrolled in the CRP because of drought or other similar emergency. Emergency haying was approved in 142 counties and grazing in 162 counties across 11 States in 2001.

For 2002, the Secretary announced on May 22 that grazing will be permitted in over 50 counties in Colorado, Kansas, Montana, Oklahoma, Texas, Utah and Wyoming on some CRP acres until August 31 or until disaster conditions no longer exist, whichever comes first. CRP participants should apply through their local Farm Service Agency office.

Emergency Loan Program (ELP). USDA provides emergency loans to help producers recover from production and physical losses resulting from drought, flooding, or other natural disasters. Emergency loans may be used to restore or replace essential property; pay all or part of production costs associated with a natural disaster; pay essential family living expenses; reorganize the farming operation; and refinance certain debts. To be eligible for a loan, a producer must own or operate land located in a county declared by the President to be, or designated by the Secretary of Agriculture as, a disaster area or a contiguous county and have suffered at least a 30-percent loss in crop production or a physical loss to livestock, livestock products, real estate or chattel property.

All emergency loans must be fully collateralized and the applicant must demonstrate repayment ability. If an applicant cannot provide adequate collateral, repayment ability may be considered as collateral to secure the loan. Producers can borrow up to 100 percent of the actual production or physical losses up to a maximum of $500,000. Loans for crop, livestock, and nonreal estate losses must normally be repaid within 1-7 years but in some instances may be extended to up to 20 years. Loans for physical losses to real estate are normally repaid within 30 years, but may be extended to up to a maximum of 40 years in certain circumstances. The current interest rate for emergency loans is 3.75 percent.

In 2000, a total of 2,440 counties were designated by either the President or the Secretary as disaster areas. USDA provided $151 million in emergency loans to producers to cover crop and physical losses in FY 2000. Either the President or the Secretary declared 2,374 counties as disaster areas in 2001 and USDA provided $90 million in emergency loans to cover losses incurred by producers in FY 2001. So far this calendar year, either the President or the Secretary have designated more than 1,100 counties as disaster areas, making producers in those counties eligible for low-interest loans. From October 1, 2001 through May 1, 2002, USDA provided low interest emergency loans valued at $32 million to producers.

The 2002 Act. In addition to all of the current programs USDA offers to help farmers and ranchers manage their risks, the 2002 Farm Bill provides significant increases in financial assistance. Most importantly, the new countercylical payment program provides a payment to farmers, without regard to how much the farmer is able to harvest. The direct and countercyclical payments for wheat, feed grains, upland cotton, rice and oilseeds are based on historical crop plantings and yields and are not influenced by a producer's current plantings or production. The decoupling of payments from current production will help protect producers from adverse weather and other natural disasters, because direct and countercyclical payments are not affected by how much an individual farmer produces. Assuming the natural disaster is limited in scope, the producer will receive about the same amount in direct and countercyclical payments regardless of whether the producer produces a crop or not.

To conclude, a series of weather events, primarily drought, during the past two years has reduced crop and forage production in a variety of states. The overall picture in U.S. agriculture, however, has been one of large production and low prices in recent years. Some production losses are typical in U.S. agriculture. As a result of these expected losses, a range of programs has evolved to assist producers manage risk and offset losses. With enactment of the Agricultural Risk Protection Act in 2000 and the Farm Security and Rural Investment Act this month, there is now a solid safety net protecting farmers from both adverse price changes and natural disasters. As the President said on signing the new farm bill ten days ago, the bill "is generous enough to eliminate the need for supplemental support later this year and in the future, and therefore adds the kind of reliability that farmers and ranchers need."